

VZCZCXRO8500
RR RUEHVK
DE RUEHUL #0544/01 0930738
ZNR UUUUU ZZH
R 030738Z APR 09
FM AMEMBASSY SEOUL
TO RUEHC/SECSTATE WASHDC 3896
RUCPDO/USDOC WASHDC 8375
RUEATRS/DEPT OF TREASURY WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEAUSA/DEPT OF HHS WASHDC
RHEHNSC/NSC WASHINGTON DC
RUEHKO/AMEMBASSY TOKYO 5692
RUEHBJ/AMEMBASSY BEIJING 5599
RUEHGP/AMEMBASSY SINGAPORE 6382
RUEHHK/AMCONSUL HONG KONG 3832
RUEHSH/AMCONSUL SHENYANG 4164
RUEHVK/AMCONSUL VLADIVOSTOK 1618
RUEHIN/AIT TAIPEI 3162

UNCLAS SECTION 01 OF 04 SEOUL 000544

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [ENRG](#) [ETRD](#) [KS](#)

SUBJECT: NORTH KOREA ECONOMIC BRIEFING - MARCH 2009

In This Issue

-- Inter-Korean Trade Drops 20 Percent in January 2009
-- Hyundai Asan to Offer Shares Worth 14 Million to Raise Cash
-- US Think Tank: DPRK Needs USD 5.5-7.5 Billion to Modernize Electricity Grid
-- Orascom Claims 6,000 North Koreans Apply for Mobile Phone Service in First Two Weeks
-- DPRK Rice Prices Drop by 300-400 DPRK Won per Kilo Due to Expanded Rice Imports
-- Sales at Pyongyang Department Store Reputedly Grow Rapidly
-- Swiss NGOs Working on Renewable Energy Technology in DPRK
-- DPRK Works with British Council to Expand English Instruction Program in Pyongyang
-- Some U.S. NGOs Continue to Send Humanitarian Aid to DPRK
-- Group Claims that ROKG Suspends Financial Support for NGO Aid to DPRK Due to Missile Launch Preparation
-- ROK NGO Sends Tuberculosis Medicine to DPRK
-- China-DPRK Trade Climbs by 41 Percent in 2008 to Reach Record USD 2.78 Billion
-- UK Fund Seeks Investors for USD 50 Million DPRK Investment Fund
-- EU Businesses Seek IT and Agricultural Business Opportunities in DPRK

Inter-Korean Economic Cooperation

1.(U) Inter-Korean Trade Drops 20 Percent in January 2009:
According to the Ministry of Unification (MOU) on February 22, inter-Korean trade in January this year declined 20 percent from a year earlier to a total of USD 113 million, recording the fifth straight monthly fall. South Korea's exports to North Korea in January amounted to USD 44 million, 38 percent down from 2008. Imports from North Korea fell by one percent to USD 69 million. The MOU said that the decline was attributable to the economic downturn and frozen inter-Korean ties.

12. (U) Hyundai Asan to Offer Shares Worth USD 14 Million to Raise Cash: Hyundai Asan Corporation (HAC), Mount Kumgang tour operator and co-developer of Kaesong Industrial Complex, said February 16 that it would offer shares worth 20 billion won (USD 14 Million) to beef up its working capital. The company has been facing cash shortages since Mount Kumgang tours were suspended in July last year due to the shooting of a South Korean tourist. HAC said in a regulatory filing that the sale of shares was set for March 30-31 with payment due on April 2. The company's revenue loss from July

last year through January this year is estimated at USD 76.4 million. On February 12, HAC even began taking (undated) reservations for Mount Kumgang tours in order to raise cash and demonstrate publicly its intent to resume tours in April.

Domestic Economy

13. (U) US Think Tank: DPRK Needs USD 5.5-7.5 Billion to Modernize Electricity Grid: U.S. experts recently judged that North Korea will require USD 5.5 -7.5 billion to replace obsolete power transmission and distribution network in North Korea. The U.S. experts, Peter Hayes, Executive Director and David Von Hippel, Senior Researcher at the Nautilus Institute, a U.S.-based private think tank, presented this view at a February 26 conference organized by Georgia Technology University. Hayes claimed that North Korea's electricity network is not unified and is regionally fragmented. Most of North Korea's electricity grid is obsolete. Furthermore, serious fluctuation of electric voltage and frequency causes electricity loss during transmission and distribution. On the other hand, the paper pointed out that North Korea's electricity output has increased slightly since 2000 because most of hydraulic power plants in North Korea, which had been damaged by floods in 1995-1996, have been restored. Hayes suggested that the Six Party countries need to facilitate electricity infrastructure in the North on a regional rather than nationwide basis for electricity grid refurbishment projects.

14. (U) Orascom Claims 6,000 North Koreans Apply for Mobile Phone Service in First Two Weeks: PC World reported February 5 that

SEOUL 00000544 002 OF 004

Koryolink, the North Korea 3G mobile network established in mid-December last year by Egyptian Orascom Telecom, attracted several thousand subscribers in the first two weeks of accepting applications in January this year. "We didn't start sales until about two weeks ago," said Naguib Sawiris, chairman of Orascom Telecom in an interview. "So far we have about 6,000 applications. The important point is that they are normal North Korean citizens, not the privileged military generals or party members. For the first time, they have been able to go to a shop and get a cellular phone."

15. (U) DPRK Rice Prices Drop by 300-400 DPRK Won per Kilo Due to Expanded Rice Imports: "Open Radio for North Korea," a Seoul-based online newsletter, reported February 2 that the North Korean cabinet had ordered North Korean trading companies to bring rice into North Korea with their foreign currency earnings from trading. The newsletter stated that the first shipment of 500 tons of rice was sent from China to Sinuiju in January. As additional rice imports followed, rice prices have fallen in a number of cities in the North including Pyongyang, Sinuiju, Nampo, Pyongsong, Hyesan and Chungjin. As of end of January, rice prices were 1,700-1,800 (USD11.3 - 12) and 1,800-1,900 DPRK won (USD 12-12.7) per kilogram in Pyongyang and Chungjin, respectively, reflecting an average drop of 300 - 400 DPRK won per kilogram. (NB: Exchange conversion at official rate).

16. (U) Sales at Pyongyang Department Store Reputedly Grow Rapidly: The Chosun Sinbo, a pro-North Korea newspaper based in Japan, quoted a North Korean sales manager at the Pyongyang First Department Store on February 26 as claiming that sales at the department store are growing rapidly. Sales in 2007 grew by 150 percent while the sales in 2008 rose 122 percent. The manager claimed the robust sales were mainly attributed to activated light industry production in the North. In addition, the department store was able to secure goods to sell as a total of 1,600 light industry factories in the North supply their goods directly to the department store without going through wholesale distribution channels. Wedding clothing and domestically produced cosmetics are reportedly the most popular items sold at the department store.

17. (U) Swiss NGOs Working on Renewable Energy Technology in DPRK: Radio Free Asia reported February 13 that a North Korean delegation plans to visit Switzerland in March this year to study renewable energy. Agape International, a Swiss NGO, in cooperation with

Campus fuer Christus, in a project helping North Korea's agricultural sector, installed two windmills (300W and 2KW) in Hwangju County, North Hwanghae Province in 2007 and have been teaching windmill technology to North Koreans. Agape International plans to continue to install wind mills to generate 500 MW of electricity by 2020. North Korea has also reportedly requested renewable energy cooperation with the United Kingdom.

18. (U) DPRK Works with British Council to Expand English Instruction Program in Pyongyang: Grahame Bilbow, Director of the British Council in Beijing said February 13 that North Korea is calling on Britain to send more English teachers, hoping to enhance the nation's international cooperation by raising the English-language proficiency of its youth. The British Council in Beijing, which operates an English teacher-trainer program for North Korea, increased the number of its teaching staff in Pyongyang from three to four last January, following North Korea's requests to expand the program. "The North Korean government continues to support this program and we take this as evidence that they give importance to raising the standard of English teaching in schools and universities in the North," according to Billow. The British Council started the English teacher-trainer program in 2002. Under the program, British instructors, teach a small group of elite university students and local English teachers who will later be deployed to provincial education universities and schools. The program is now offered to Kim Hyong Jik University, the Pyongyang University of Foreign Studies and Kim Il Sung University in Pyongyang, North Korea. About 450 North Korean students and teachers are currently taking part in the program.

Foreign Aid

19. (U) Some U.S. NGOs Continue to Send Humanitarian Aid to DPRK: Voice of America reported February 18 that some U.S.-based civic groups, including World Vision (wheat flour), AmeriCares (medical

SEOUL 00000544 003 OF 004

aid) and Global Resource Service (power generators for hospitals), will continue to send humanitarian aid to North Korea this year.

110. (U) Group Claims that ROKG Suspends Financial Support for NGO Aid to DPRK Due to Missile Launch Preparation: "The Council of South Korean Civic Groups Helping North Korea" reported on February 25 that the Unification Ministry had recently withheld approval for financial support for civic groups' shipments of greenhouse materials to North Korea because of the North's recent missile launch preparations. The Council, which consists of 50 ROK civic groups helping North Korea, met with its North Korean counterpart, the National Reconciliation Council, in Shenyang, China on February 11 and agreed to send vinyl for rice seedbed greenhouses to North Korea before rice seedling season. The South Korean Council requested the Unification Ministry provide funds from the Inter-Korean Cooperation Fund to support its humanitarian aid project for North Korea; however, the request was returned without action. A Unification Ministry official said that the government will continue to send humanitarian aid to North Korea despite the current unstable political conditions between the two Koreas. However, he noted that the government would consult with other relevant agencies regarding relations with the DPRK to determine the appropriate timing and amount of aid.

ROK NGO Sends Tuberculosis Medicine to DPRK

111. (U) The Movement for Helping North Korean Children Fight Tuberculosis, a South Korea-based civic group, shipped 4 billion won (USD 3.08 million) worth of tuberculosis remedies and antibiotics on February 3 to treat tuberculosis patients in Rajin and Sunbong, North Korea. Kim Sang-hwan, Secretary-General of the civic group, cited a North Korean Health Ministry official as saying that around 13,000 North Koreans have been diagnosed with tuberculosis in Rajin. The shipment will benefit 300,000 - 400,000 tuberculosis patients and was the NGO's fifth shipment since it begun sending aid to North Korea in March of 2008.

Foreign Trade and Investment

¶12. (U) China-DPRK Trade Climbs by 41 Percent in 2008 to Reach Record USD 2.78 Billion: According to figures released by Chinese Customs on February 1, North Korea's two-way trade with China in 2008 rose 41 percent, to USD 2.78 billion. North Korea's 2008 exports to China increased by 30 percent over a year earlier and amounted to USD 750 million, while DPRK imports rose 46 percent year-on-year to USD 2.03 billion. As a result, North Korea's trade deficit with China in 2008 widened further to a total of USD 1.28 billion (up from USD 810 million in 2007), indicating North Korea's deepening economic reliance on China. Major items that North Korea exported to China in 2008 consist of iron ore, steel, textiles and fishery products. The main goods that North Korea brought from China include oil, machinery, electrical equipment, textiles and plastic products. Since 1990, China has been North Korea's top trading partner by an increasing margin. South Korea's Unification Ministry attributes this trend to continued economic sanctions imposed on North Korea by the international community and frozen inter-Korean ties. The Ministry foresees North Korea's trade with China as expanding further in 2009 as the two governments encourage exchanges of personnel and goods to commemorate the 60th anniversary of diplomatic ties.

¶13. (U) UK Fund Seeks Investors for USD 50 Million DPRK Investment Fund: The Chosun Development and Investment Fund (CDIF) is seeking to raise USD 50 million to invest in North Korea, Koryo Asia, the London-based fund manager said on February 24. The fund will focus on reviving North Korea's mining, finance and energy sectors. Colin McAskil, chairman of Koryo Asia claimed, "North Korea has effectively been cut off from the international community for decades. The country holds huge natural resources but is capital-starved and lacks the technology and management skills with which to develop them." McAskil scrapped an earlier fund after U.S.-imposed sanctions led to a freezing of North Korean deposits at international banks. The fund raising plan was revived after the U.S. government removed North Korea from the list of state-sponsors of terrorism in October last year.

¶14. (U) EU Businesses Seek IT and Agricultural Business

SEOUL 00000544 004 OF 004

Opportunities in DPRK: Radio Free Asia reported February 18 that a European business delegation led by Paul Tjia, CEO of GPI Consultancy, plans to visit Pyongyang May 9-16 to seek new business opportunities there. The delegation consisting of businesses from Netherlands, Spain, and Switzerland will visit North Korean firms dealing with the IT and agricultural sectors.

STEPHENS